

REVISED SURREBUTTAL TESTIMONY AND EXHIBITS OF

ANTHONY SANDONATO

ON BEHALF OF

THE SOUTH CAROLINA OFFICE OF REGULATORY STAFF

DOCKET NO. 2019-290-WS

**IN RE: APPLICATION OF BLUE GRANITE WATER COMPANY FOR
APPROVAL TO ADJUST RATE SCHEDULES AND INCREASE RATES**

Q. PLEASE STATE YOUR NAME, BUSINESS, ADDRESS AND OCCUPATION.

A. My name is Anthony Sandonato. My business address is 1401 Main Street, Suite 900, Columbia, South Carolina, 29201. I am employed by the South Carolina Office of Regulatory Staff (“ORS”) in the Energy Operations Division as a Senior Regulatory Manager.

Q. DID YOU FILE DIRECT TESTIMONY AND EXHIBITS RELATED TO THIS PROCEEDING?

A. Yes. I filed direct testimony and eight (8) exhibits with the Public Service Commission of South Carolina (“Commission”) on January 23, 2020.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by Blue Granite Water Company (“BGWC” or “Company”) witness DeStefano on February 6, 2020. Specifically, I will focus on:

- The Company’s proposed Annual Rate Adjustment (“ARA”) mechanism;

- Cost of service and tariff rate design;
- Purchased water and sewer treatment expenses and related deferrals;
- Amortization of deferral balances;
- Clarification for “Contributions in Aid of Construction (“CIAC”) tariff language;
- Costs related to processing of the Company’s proposed ARA mechanism filing; and
- ORS’s calculated rates and revenue requirement.

Annual Rate Adjustment Mechanism

Q. PLEASE EXPLAIN ORS’S POSITION WITH RESPECT TO THE COMPANY’S PROPOSED ARA MECHANISM.

A. ORS maintains the Company’s ARA mechanism is not a “pass-through” of rates as Company witness DeStefano refers to in his rebuttal testimony. The ARA mechanism is designed by the Company to recover a significant expense with little to no review and inadequate customer protections.

Q. PLEASE EXPLAIN HOW THE COMPANY’S PROPOSED ARA MECHANISM PASSES THROUGH TO CUSTOMERS A CHANGE IN EXPENSE VERSUS A CHANGE IN RATES.

A. As detailed in my Direct Testimony, the Company requests to “pass-through” changes in purchased water and wastewater expenses. This is fundamentally different than a “pass-through” of the change in purchased water and wastewater rates. For example, if a third-party water provider increased the purchased water rate by \$0.05 per 1,000 gallons

1 and the Company was billed for 100,000,000 gallons of water at the updated purchased
2 water rate for the year, then the Company's total increase in purchased water expense
3 would be \$5,000. For comparison purposes, the impact of this purchase water rate change
4 if the customers' metered consumption totaled 75,000,000 gallons, would be an increase
5 of \$3,750 for the year.

6 According to the Company's proposed ARA mechanism, the increase would occur
7 at the expense level and, therefore, there would be an allocation to customers resulting in
8 them covering the \$3,750 attributed to the customer's consumption plus the additional
9 \$1,250, which cannot be attributed to customer's consumption. This means the customer
10 would be liable for the Company's total increase in expenses rather than liable for just the
11 change in rates of the actual commodity.

12 **Q. DOES THE ARA MECHANISM AS PROPOSED BY THE COMPANY EQUATE**
13 **TO A DOLLAR-FOR-DOLLAR PASS-THROUGH IN RATES WITHOUT**
14 **MARKUP OR MARGIN?**

15 **A.** No. The Company stated that the ARA mechanism allows the Company to track
16 and pass on to customers changes in third party rates on a dollar-for-dollar basis without
17 markup or margin.¹ As illustrated above, this is not correct because the Company would
18 be passing on additional costs that could be attributed to non-revenue water or Inflow and
19 Infiltration ("I&I") for purchased sewer treatment systems. Non-revenue water and I&I are
20 appropriately reviewed in a general rate proceeding, and ORS has proposed an adjustment
21 to the Company's purchased water deferral and purchased water expenses in this

¹ Rebuttal Testimony of Dante DeStefano Page 9, lines 7-11

proceeding based on its review of the Company's purchased water expense and management practices.

Q. PLEASE RESPOND TO THE COMPANY'S ASSERTION THAT THE RATE DESIGN PROPOSED IN THE ARA MECHANISM IS MORE COMPLEX THAN THE PASS-THROUGH RATE CHANGES APPROVED BY THE COMMISSION FOR KIAWAH ISLAND UTILITIES, INC. ("KIAWAH") OR OCEAN LAKES UTILITIES, L.P. ("OCEAN LAKES").

A. The Company acknowledges that its ARA mechanism rate design is not as simple as Kiawah's or Ocean Lakes' due to BGWC purchasing water from fourteen (14) providers and purchasing sewer treatment from eight (8) providers. A complicated rate design does not justify shifting the risk to customers of all expenses incurred from a third-party provider's rate increase. Water and sewer utilities in other states purchase water and sewer treatment service from multiple sources and they are able to reflect third-party provider rate increase specifically by water or sewer treatment provider.^{2,3}

Q. DOES ORS'S RECOMMENDATION TO REJECT THE ARA MECHANISM UNFAIRLY IMPACT THE COMPANY?

A. No. ORS's position offers protections to the Company's customers while simultaneously allowing the Company an opportunity to recover increases in its expenses from third-party vendors. This is the same treatment afforded to the Company for the

² Virginia-American Water Company Purchased Water Surcharge Ryder A
<https://dnnh3qht4.blob.core.windows.net/portals/14/Rates/VA%20Water%20Tariff.pdf?sr=b&si=DNNFileManagerPolicy&sig=%2BsuASTYJn20YfaMr0OwTPC8gfYO1grSXbRI5Y30Jluw%3D>

³ Maryland Water Service, Inc. Unaccounted-for-Water ("UFW") Reconciliation
<https://www.uiwater.com/docs/default-source/maryland/mws-tariff-water-2018-ufw-04-19-2019.pdf?sfvrsn=0>

recovery of other third-party expense increases such as increases in power, contract labor and supplies. The Company is allowed to present increases and changes in operating expenses in a general rate proceeding. During the general rate proceeding process, the changes in all operating expenses are reviewed and may be adjusted. ORS's recommendation to reject the ARA mechanism does not prohibit the Company from seeking recovery of incurred third-party purchased water and wastewater expense.

Q. CAN THE COMPANY MINIMIZE THE COST IMPACT OF THIRD-PARTY WATER AND SEWER TREATMENT PROVIDERS?

A. Yes. The Company often negotiates contracts with third-party water and sewer treatment providers. It is during this process that the Company would have an opportunity to utilize its long-term strategic planning to negotiate rates and seek out additional opportunities for potentially lower costs of purchased water and sewer treatment for its customers.

Q. DURING A GENERAL RATE CASE PROCEEDING, IS THE COMMISSION LIMITED IN ITS ABILITY TO MAKE ADJUSTMENTS RELATED TO THE COMPANY'S PURCHASED WATER AND PURCHASED SEWER TREATMENT EXPENSES?

A. No. The Commission may incorporate adjustments to all Company operating expenses in the determination and approval of rates and charges.. The fact that a municipal entity outside the jurisdiction of the Commission sets a rate for purchased water and sewer treatment expense does not constrain the Commission's determination of just and reasonable rates for the customers of BGWC.

Q. PLEASE SUMMARIZE ORS'S RECOMMENDATIONS PERTAINING TO THE ARA MECHANISM.

A. ORS recommends the Commission deny the Company's request to establish an ARA mechanism. As detailed above, the Company's proposed ARA mechanism 1) does not contain consumer protections, and 2) disproportionally places risks such as non-revenue water on the Company's customers for Company-controlled expenses.

Alternatively, if the Commission determines the Company should recover its purchased water and sewer treatment charges more quickly than a general rate proceeding, ORS recommends that any rate that customers pay for purchased water and sewer treatment be established to reflect the actual rate from the third-party provider that provides the service to the customer.

Cost of Service and Tariff Rate Design

Q. DOES THE COMPANY AGREE WITH ORS'S PROPOSAL TO LIMIT THE INCREASE TO WATER SERVICE TERRITORY 2 REVENUE REQUIREMENT TO NO MORE THAN 31% OF THE TOTAL WATER SERVICE REVENUE REQUIREMENT?

A. Yes. The Company agrees that continued rate consolidation is in the long-term best interest of its customers.⁴

Q. WITNESS DESTEFANO ACKNOWLEDGES THAT THE COMPANY WOULD FILE A COST OF SERVICE STUDY IN ITS NEXT RATE CASE. PLEASE RESPOND TO THE COMPANY'S ACKNOWLEDGEMENT.

⁴ Rebuttal Testimony of Dante DeStefano Page 37, lines 3-4

A. A Cost of Service Study is essential to determine the proper rate design. Fundamentally, the Cost of Service Study will demonstrate which costs need to be recovered and from which customer classes the cost should be recovered. Due to its importance, ORS recommends the Commission require BGWC conduct a Cost of Service Study that coincides with the test year and is included as part of its next rate case.

Q. IS A COST OF SERVICE STUDY NECESSARY TO IMPLEMENT THE PURCHASED WATER OR SEWER TREATMENT CHARGE?

A. Yes. The proposed “Purchased Water Charge” and “Sewer Treatment Charge” are listed as separate line items on customer bills and are a component of BGWC’s proposed ARA mechanism.

Until the Company completes a Cost of Service Study to identify the cost drivers, the Company cannot support a new rate design for water or sewer customers. ORS recommends the Commission require the Company conduct a Cost of Service Study prior to fundamentally changing its rate structure. The Commission has previously required significant rate design changes to be fully supported by relevant data prior to implementing the proposed changes.⁵ ORS believes that the Company should retain its existing rate structure of a Base Facility Charge, a commodity charge based on water consumption for water customers and a Base Facility Charge for sewer customers until the Company completes a Cost of Service Study.

Q. DOES THE COMPANY’S PROPOSED ARA MECHANISM ALTER BASE RATES?

⁵ Commission Order Nos. 2019-314 and 2019-323

1 A. Yes. Company witness DeStefano states the proposed “Purchased Water
2 Adjustment Charge” and “Sewer Treatment Adjustment Charge” would be shown as a
3 separate line item on customer bills.⁶ As discussed earlier, BGWC’s proposal includes fan
4 allocation of expenses from third-party water and sewer treatment providers that
5 incorporate non-revenue water and I&I and other costs that are not directly related to the
6 rate increase from the third-party providers. Witness DeStefano indicates in Rebuttal
7 Testimony the Company is willing to provide a Cost of Service Study in its next base rate
8 filing to support changes in its rate structure. ORS agrees that a Cost of Service Study
9 should be complete before the Commission approves changes to the Base Facility Charges
10 for water and sewer service, commodity charges such as Distribution or the additional of
11 any new volumetric charge.

12 Q. PLEASE RESPOND TO WITNESS DESTEFANO’S ASSERTION THAT ORS
13 RECOMMENDS THAT CHARGES BE “HIDDEN” WITHIN THE COMPANY’S
14 RATE STRUCTURE.

15 A. The Company’s current rate design approved by the Commission was
16 recommended by the Company and classifies purchased water and sewer treatment costs
17 as operating expenses which are allocated to all water and sewer customers. The
18 Company’s request to receive quicker recovery of purchased water and sewer treatment
19 costs does not promote greater rate design transparency. Transparency does not result in
20 the customer being assessed a rate that does not reflect the actual increase in an easily
21 understood manner. Until the Company is able to provide customers the actual purchased

⁶ Rebuttal Testimony of Dante DeStefano Page 37, lines 14-15

1 water or purchased sewer treatment expenses related to the services the customer receives
2 from the third-party provider, clarity and transparency will not be improved for the
3 customers.

4 **Purchased Water and Sewer Treatment Expenses and Related Deferrals**

5 **Q. IF THE COMMISSION DECIDES THAT THE COMPANY SHOULD CONTINUE**
6 **THE DEFERRALS TO ACCOUNT FOR CHANGES IN PURCHASED WATER**
7 **AND PURCHASED SEWER TREATMENT EXPENSES, SHOULD THE**
8 **COMPANY BE ALLOWED TO APPLY CARRYING COSTS TO THE**
9 **DEFERRALS AT THE COMPANY'S AUTHORIZED COST OF DEBT?**

10 **A.** No. The Company's request to receive carrying costs in addition to recovery of the
11 deferral will impact customers negatively by increasing the amount to be recovered from
12 customers. Purchased water and sewer treatment expenses are similar to power, contract
13 labor and chemicals. The continuation of the deferral allows the Company the opportunity
14 to recover expenses outside of the historic test year. This benefit accrues to the Company
15 and is sufficient. The addition of carrying costs is not necessary nor does it benefit the
16 customer.

17 **Amortization of Deferral Balances**

18 **Q. PLEASE CLARIFY ORS'S PROPOSED AMORTIZATION PERIOD FOR**
19 **DECOMMISSIONING COSTS AND NET BOOK VALUE FOR THE**
20 **STONEGATE AND FRIARSGATE PLANTS.**

21 **A.** ORS recommends that the amortization period of the Stonegate Water Treatment
22 Plant and associated decommissioning costs of \$742,071 reflect the amortization period of

the corresponding asset accounts. This results in an amortization period of 29.64 years. ORS recommends that the Friarsgate Wastewater Treatment Plant and associated decommissioning costs of \$7,006,490 reflect the amortization of the corresponding asset accounts. This results in an amortization period of 31.12 years. ORS witness Briseno details the calculation of the amortization periods in his surrebuttal testimony.

Clarification of CIAC Tariff Language

Q. DOES ORS AGREE WITH THE COMPANY'S CLARIFICATION RELATED TO CIAC AS DISCUSSED BY COMPANY WITNESS DESTEFANO ON PAGE 36 OF HIS REBUTTAL TESTIMONY?

A. Yes. ORS agrees it is appropriate to incorporate the authorized capital structure from this rate case be utilized to calculate the tax gross up percentage on property contributions.

Costs Related to Processing of the Company's Proposed ARA Mechanism Filing

Q. SHOULD THE COMPANY BE ALLOWED TO RECOVER COSTS ASSOCIATED WITH ITS PROPOSED ARA MECHANISM FILING?

A. No. The Commission should reject the Company's proposed ARA mechanism as filed and as a result the Company will not incur any administrative or legal expenses.

ORS's Calculated Rates and Revenue Requirement

Q. PLEASE DETAIL ORS'S CALCULATED REVENUE REQUIREMENT BASED ON INFORMATION CLARIFIED IN ITS SURREBUTTAL.

A. Surrebuttal Exhibit AMS-1 details the ORS calculated residential and commercial water and wastewater service revenues, as adjusted, of \$32,489,546. ORS's calculated rates

1 provide BGWC with an increase of \$3,829,858 or 31% for water operations and of
2 \$4,626,434-47,703 or 40% for sewer operations.

3 **Q. WILL YOU UPDATE YOUR TESTIMONY BASED ON INFORMATION THAT**
4 **BECOMES AVAILABLE?**

5 **A.** Yes. ORS fully reserves the right to revise its recommendations via supplemental
6 testimony should new information not previously provided by the Company, or other
7 sources, becomes available.

8 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

9 **A.** Yes, it does.